

**Report of the
PUBLIC EMPLOYEE RETIREMENT
ADMINISTRATION COMMISSION
on the Examination of the
Clinton
Contributory Retirement System
For the Three Year Period
January 1, 1999 - December 31, 2001
PERAC 01: 09-028-10**

TABLE OF CONTENTS

Letter from the Executive Director	1
Explanation of Findings and Recommendations	2
Statement Of Ledger Assets And Liabilities	3
Statement Of Changes In Fund Balances	4
Statement Of Income	5
Statement Of Disbursements.....	6
Investment Income.....	7
Statement Of Allocation Of Investments Owned	8
Supplementary Investment Regulations	9
<u>Notes to Financial Statements:</u>	
Note 1 - The System.....	12
Note 2 - Significant Accounting Policies.....	13
Note 3 - Supplementary Membership Regulations.....	14
Note 4 - Administration Of The System	17
Note 5 - Actuarial Valuation And Assumptions	18
Note 6 - Membership Exhibit.....	19

November 13, 2003

The Public Employee Retirement Administration Commission has completed an examination of the **Clinton** Retirement System pursuant to G.L. c. 32, §. 21. The examination covered the period from January 1, **1999** to December 31, **2001**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner Richard Ackerson who conducted this examination and expresses appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton
Executive Director

Clinton Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001

1. **Insufficient Investment Income**

M.G.L. c.32 §22(6) (a) defines the investment income account as income from interest and dividends. This account is used to satisfy the interest requirements for the Annuity Savings Fund, Annuity Reserve Fund, and Military Service Fund, and also to zero out the Expense Fund. After satisfying statutory interest requirements and Board expenses, any balance remaining in the investment income account shall be transferred to the Pension Reserve Fund. Any amount by which the balance is insufficient to satisfy these requirements shall be charged to the Pension Fund and credited to the investment income account for the purpose of making up the deficit. Any realized or unrealized gains and losses are not considered investment income and are always posted to the Pension Reserve Fund.

The Clinton Retirement System is totally invested in pooled funds. They receive very little interest and dividends and the balance in the investment income account is not sufficient to satisfy the statutory interest requirements and Board expenses. However, the deficit each year has been erroneously posted to the Pension Reserve Fund and not to the Pension Fund. It should be noted that the TACS accounting system does not handle this closing entry transaction properly and, in part, was responsible for causing the error.

Recommendation

Any future deficit should be posted to the Pension Fund. Restating previous years would not serve any useful purpose since it would simply result in a negative Pension Fund balance and require a transfer of funds from the Pension Reserve Fund to the Pension Fund. The Board may wish to discuss this finding with TACS.

Board Response

The problem is within the TACS computer system. The Clinton Retirement Board has notified TACS and they are working on the problem.

2. **Additional 2%**

During a review of members' files the auditor found that due to an error in the Town payroll system the additional 2% was not being deducted from Quinn Bill and Acting Sergeants earnings for police officers. This error was created when the Town of Clinton recently changed payroll systems.

Recommendation

The error was corrected and appropriate funds recovered prior to the conclusion of the audit.

PERAC audit staff will follow-up in six (6) months to ensure appropriate actions have been taken regarding all findings.

Clinton Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2001**

FOR THE PERIOD ENDING DECEMBER 31,			
ASSETS	2001	2000	1999
Cash	\$540,304	\$446,097	\$544,115
Short Term Investments	0	0	0
Fixed Income Securities (at book value)	0	0	0
Equities	0	0	0
Pooled Short Term Funds	0	0	0
Pooled Domestic Equity Funds	9,162,417	9,328,937	7,480,553
Pooled International Equity Funds	0	0	2,276,250
Pooled Global Equity Funds	0	0	0
Pooled Domestic Fixed Income Funds	3,617,624	4,040,053	3,587,632
Pooled International Fixed Income Funds	0	0	0
Pooled Global Fixed Income Funds	0	0	0
Pooled Alternative Investment Funds	0	0	0
Pooled Real Estate Funds	1,121,308	937,776	587,825
Pooled Domestic Balanced Funds	0	0	0
Pooled International Balanced Funds	0	0	0
PRIT Cash Fund	0	0	0
PRIT Core Fund	0	0	0
Interest Due and Accrued	1,028	2,316	2,273
Accounts Receivable	1,812	8,232	12,364
Accounts Payable	0	0	0
TOTAL	<u>\$14,444,494</u>	<u>\$14,763,411</u>	<u>\$14,491,013</u>
FUND BALANCES			
Annuity Savings Fund	\$5,325,319	\$5,037,828	\$4,546,033
Annuity Reserve Fund	1,225,775	1,002,389	965,996
Pension Fund	573,276	458,058	288,777
Military Service Fund	0	0	0
Expense Fund	0	0	0
Pension Reserve Fund	7,320,124	8,264,136	8,690,207
TOTAL	<u>\$14,444,494</u>	<u>\$14,762,411</u>	<u>\$14,491,013</u>

Clinton Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2001**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (1999)	\$4,102,630	\$991,448	\$148,879	\$0	\$0	\$6,664,110	\$11,907,067
Receipts	604,204	28,410	955,738	0	159,916	2,021,541	3,769,810
Interfund Transfers	(92,664)	88,107	0	0	0	4,557	(0)
Disbursements	(68,137)	(141,969)	(815,841)	0	(159,916)	0	(1,185,864)
Ending Balance (1999)	4,546,033	965,996	288,777	0	0	8,690,207	14,491,013
Receipts	665,749	27,833	1,015,888	0	177,330	(426,072)	1,460,728
Interfund Transfers	(131,389)	131,389	0	0	0	0	0
Disbursements	(42,565)	(122,829)	(845,606)	0	(177,330)	0	(1,188,330)
Ending Balance (2000)	5,037,828	1,002,389	459,058	0	0	8,264,136	14,763,411
Receipts	670,932	31,429	1,017,830	0	161,128	(924,622)	956,697
Interfund Transfers	(335,768)	355,157	0	0	0	(19,390)	0
Disbursements	(47,673)	(163,201)	(903,613)	0	(161,128)	0	(1,275,615)
Ending Balance (2001)	<u>\$5,325,319</u>	<u>\$1,225,775</u>	<u>\$573,276</u>	<u>\$0</u>	<u>(\$0)</u>	<u>\$7,320,124</u>	<u>\$14,444,494</u>

Clinton Retirement System

STATEMENT OF INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2001**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2001	2000	1999
Annuity Savings Fund:			
Members Deductions	\$571,705	\$528,394	\$471,939
Transfers from other Systems	5,406	16,643	21,734
Member Make Up Payments and Redeposits	1,238	26,051	22,147
Investment Income Credited to Member Accounts	<u>92,583</u>	<u>94,660</u>	<u>88,383</u>
Sub Total	<u>670,932</u>	<u>665,749</u>	<u>604,204</u>
Annuity Reserve Fund:			
Investment Income Credited Annuity Reserve Fund	<u>31,429</u>	<u>27,833</u>	<u>28,410</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	12,395	16,247	17,739
Received from Commonwealth for COLA and Survivor Benefits	73,293	85,576	102,523
Pension Fund Appropriation	<u>932,141</u>	<u>914,065</u>	<u>835,476</u>
Sub Total	<u>1,017,830</u>	<u>1,015,888</u>	<u>955,738</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited Military Service Fund	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Expense Fund Appropriation	0	0	
Investment Income Credited to Expense Fund	<u>161,128</u>	<u>177,330</u>	<u>159,916</u>
Sub Total	<u>161,128</u>	<u>177,330</u>	<u>159,916</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	0	0	0
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	457	528	644
Excess Investment Income	<u>(925,079)</u>	<u>(426,599)</u>	<u>2,020,896</u>
Sub Total	<u>(924,622)</u>	<u>(426,072)</u>	<u>2,021,541</u>
TOTAL RECEIPTS	<u>\$956,697</u>	<u>\$1,460,728</u>	<u>\$3,769,810</u>

Clinton Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2001**

FOR THE PERIOD ENDING DECEMBER 31,			
	2001	2000	1999
Annuity Savings Fund:			
Refunds to Members	\$23,681	\$42,565	\$29,596
Transfers to other Systems	<u>23,992</u>	<u>0</u>	<u>38,541</u>
Sub Total	<u>47,673</u>	<u>42,565</u>	<u>68,137</u>
Annuity Reserve Fund:			
Annuities Paid	136,870	122,829	120,555
Option B Refunds	<u>26,331</u>	<u>0</u>	<u>21,414</u>
Sub Total	<u>163,201</u>	<u>122,829</u>	<u>141,969</u>
Pension Fund:			
Pensions Paid			
Regular Pension Payments	626,981	604,754	588,680
Survivorship Payments	23,506	18,860	18,300
Ordinary Disability Payments	33,585	21,536	16,131
Accidental Disability Payments	118,729	90,119	101,154
Accidental Death Payments	19,125	33,256	32,128
Section 101 Benefits	0	0	0
3 (8) (c) Reimbursements to Other Systems	81,685	77,081	59,447
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	0	0	0
Sub Total	<u>903,613</u>	<u>845,606</u>	<u>815,841</u>
Military Service Fund:			
Return to Municipality for Members Who			
Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	15,000	15,000	15,000
Salaries	27,914	26,663	25,049
Legal Expenses	0	0	0
Medical Expenses	0	0	0
Travel Expenses	2,417	2,883	2,941
Administrative Expenses	19,430	31,202	13,627
Furniture and Equipment	1,038	948	20,877
Management Fees	75,329	75,883	36,363
Custodial Fees	0	0	20,061
Consultant Fees	<u>20,000</u>	<u>24,750</u>	<u>26,000</u>
Sub Total	<u>161,128</u>	<u>177,330</u>	<u>159,916</u>
TOTAL DISBURSEMENTS	<u>\$1,275,615</u>	<u>\$1,188,330</u>	<u>\$1,185,864</u>

Clinton Retirement System

INVESTMENT INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2001**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2001	2000	1999
Investment Income Received From:			
Cash	16765.49	23719.51	\$44,148
Short Term Investments	0	0	0
Fixed Income	0	0	0
Equities	0	0	0
Pooled or Mutual Funds	0	(150,495)	<u>2,251,185</u>
Commission Recapture	0	0	0
TOTAL INVESTMENT INCOME	<u>16,765</u>	<u>(126,775)</u>	<u>2,295,333</u>
Plus:			
Increase in Amortization of Fixed Income Securities	0	0	0
Realized Gains	135,486	0	0
Unrealized Gains	3,234,925	0	0
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>1,028</u>	<u>2,316</u>	<u>2,273</u>
Sub Total	<u>3,371,439</u>	<u>2,316</u>	<u>2,273</u>
Less:			
Decrease in Amortization of Fixed Income Securities	0	0	0
Paid Accrued Interest on Fixed Income Securities	0	0	0
Realized Loss	(66,273)	0	0
Unrealized Loss	(3,959,555)	0	0
Custodial Fees Paid	0	0	0
Consultant Fees Paid	0	0	0
Management Fees Paid	0	0	0
Board Member Stipend	0	0	0
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(2,316)</u>	<u>(2,273)</u>	<u>0</u>
Sub Total	<u>(4,028,144)</u>	<u>(2,273)</u>	<u>0</u>
NET INVESTMENT INCOME	<u>(639,939)</u>	<u>(126,733)</u>	<u>2,297,606</u>
Income Required:			
Annuity Savings Fund	92,583	94,660	88,383
Annuity Reserve Fund	31,429	27,833	28,410
Military Service Fund	0	0	0
Expense Fund	161,128	<u>177,330</u>	<u>159,916</u>
TOTAL INCOME REQUIRED	<u>285,140</u>	<u>299,824</u>	<u>276,710</u>
Net Investment Income	<u>(639,939)</u>	<u>(126,733)</u>	<u>2,297,606</u>
Less: Total Income Required	<u>285,140</u>	<u>299,824</u>	<u>276,710</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>(\$925,079)</u>	<u>(\$426,557)</u>	<u>\$2,020,896</u>

Clinton Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001

	BOOK VALUE*	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash		\$540,304	3.74%	100
Short Term		0	0.00%	100
Fixed Income		0	0.00%	20 - 80
Equities		0	0.00%	70
Pooled Short Term Funds		0	0.00%	
Pooled Domestic Equity Funds		9,162,417	63.44%	70
Pooled International Equity Funds		0	0.00%	
Pooled Global Equity Funds		0	0.00%	
Pooled Domestic Fixed Income Funds		3,617,624	25.05%	20 - 80
Pooled International Fixed Income Funds		0	0.00%	
Pooled Global Fixed Income Funds		0	0.00%	
Pooled Alternative Investment Funds		0	0.00%	
Pooled Real Estate Funds		1,121,308	7.76%	15
Pooled Domestic Balanced Funds		0	0.00%	
Pooled International Balanced Funds		0	0.00%	
PRIT Cash Fund		0	0.00%	
PRIT Core Fund		0	0.00%	100
GRAND TOTALS	\$0	<u>\$14,441,653</u>	<u>100.00%</u>	

* The book value differs from the market value for individually owned Fixed Income Securities which are valued at amortized cost which is the original cost of the investment plus or minus any bond discount or bond premium calculated ratably to maturity. All other investments are reflected at their quoted market value.

For the year ending December 31, **2001**, the rate of return for the investments of the **Clinton** Retirement System was -4.58%. For the five year period ending December 31, **2001**, the rate of return for the investments of the **Clinton** Retirement System averaged 7.40%. For the 17-year period ending December 31, **2001**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Clinton** Retirement System was 8.90%.

Clinton Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001

The **Clinton** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on :

January 14, 1991

- 20.03(1) Equity investments shall not exceed 50% of the total book value of the portfolio at the time of purchase and provided further that domestic equities shall not exceed 40% of the total book value of the portfolio at the time of purchase and international equities shall not exceed 10% of the total book value of the portfolio at the time of purchase.
- 20.04(1) United States based corporations and equities of foreign corporations.
- 20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.
- 20.07(9) Commingled real estate funds shall not exceed 10% of the total book value of the portfolio at the time of purchase.
- 20.07(10) A separate account may be used for real estate provided that:
(a) contract holders do not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;
(b) such personnel retain authority in the decision making process; and
(c) should an investment in a separate account result in the direct ownership of real estate or debt, such shall be permitted only until such time as divestiture is prudent.

July 28, 1994

- 20.03(2) At least 40% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year, including international fixed income investments which shall not exceed 5% of the portfolio valued at market.
- 20.04(6) The board may invest in obligations issued by foreign corporations and in obligations issued and guaranteed by foreign governments.

October 19, 1995

- 16.02(3) The board may incur expenses for investment advice or management of the funds of the system by a qualified investment manager and the board may incur expenses for consulting services. Such expenses may be charged against earned income from investments provided that the total of such expenses shall not exceed in any one year.
(a) 1% of the value of the fund for the first \$5 million, and
(b) 0.5% of the value of the fund in excess of \$5 million.

Clinton Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001

April 23, 1997

- 18.02(4) Rate of Return – The rate of return objective is to equal or surpass a composite of 40% of the S&P 500 Index, 40% of the Merrill Lynch Government/Corporate Intermediate Index, and 20% of the Dow Jones World Stock Index over a five-year investment cycle.
- 18.02(5) Risk – The expected level of risk for the equity portion of the portfolio expressed in terms of an annual average beta coefficient with 1.0 equal to market volatility which, for boards partially or wholly exempt from statutory investment restrictions pursuant to 840 CMR 19.05, shall be not less than .29 nor more than 1.15 as determined in accordance with the beta service approved by the Executive Director.

October 3, 1997

- 20.03(1) Equity investments shall not exceed 70% of the portfolio valued at market, including international equities which shall not exceed 15% of the portfolio valued at market. (Expires December 31, 1998) (Subject to CMR 10.03(4))
- 20.03(2) At least 20% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year, including international fixed income investments which shall not exceed 5% of the portfolio valued at market. (Subject to CMR 20.03(4))
- 20.03(4) International investments shall not exceed 15% of the total portfolio valued at market. (Expires December 31, 1998)

December 4, 1997

- 20.07(9) Commingled real estate, limited to investments in Cohen & Steers Realty Shares, shall not exceed 15% of the total market value of the portfolio at the time of purchase provided that:
- (a) the retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;
 - (b) such personnel retain authority in the decision making process, and
 - (c) should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

August 30, 2000

- 16.08 In accordance with PERAC Investment Guideline 99-2, the Clinton Retirement Board may make a modification to its investment agreements with State Street Global Advisors. In transitioning from the EAFE Securities Lending Fund to the International Growth Opportunities Fund, the Board is investing in the same universe of securities, with the same portfolio benchmark, but in an active rather than passive style consistent with its overall asset allocation program. The Board has an existing and successful relationship with SSgA, it is satisfied that SSgA has sufficient ability as an active international equity manager, and certain internal guidelines for the actively- managed fund limit the extent of the portfolio's deviation for the benchmark portfolio structure

Clinton Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001

August 31, 2001

16.08 In accordance with PERAC Investment Guideline 99-2, the Clinton Retirement System is modifying its international growth equity mandate with State Street Global Advisors to allow for securities lending. There is no change in the fund's investment strategy, investment universe, or benchmark. The Board understands and is comfortable with the practice of securities lending and is satisfied with State Street Bank's capabilities in this area.

April 10, 2003

16.08 In accordance with PERAC Investment Guideline 99-2, the Clinton Retirement Board is authorized to invest in the SSGA International Alpha Fund. By supplementing its current investment in the SSGA International Growth Opportunities Fund, which has a growth tilt, with the International Alpha Fund, which has a value tilt, the Board will more effectively achieve its mandate for large cap international core equity. Both funds have an MSCI-EAFE benchmark. The Board has had a satisfactory experience with SSGA in international equity and benefits from the low management fees of SSGA's commingled funds.

Clinton Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all **Clinton** Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Clinton Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Clinton Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Clinton** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

December 8, 1992

Effective as of October 22, 1992 a person must work a minimum of twenty hours per week to be eligible to join the Clinton Retirement System. Any member currently in the Clinton Retirement System before this date will be grandfathered into the system.

To allow two (2) months creditable service for each year a call firefighter works for the Town of Clinton, not to exceed five (5) years, provided that the call firefighter goes directly from a call firefighter to a permanent firefighter. This ruling takes effect as of October 23, 1992.

Clinton Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

November 3, 1994

Any person working for the Town of Clinton who is not eligible for the town's retirement program and has an alternative retirement program being paid into will not be considered for creditable service for the town retirement plan.

April 17, 1996

Permanent part-time employees (as defined by the Town of Clinton Personnel By-Laws) working a minimum of twenty (20) consistent hours per week must become members of the Clinton Retirement System.

Part-time permanent employees, receiving weekly or monthly salaries or wages for consecutive periods of employment will be given creditable service based on service rendered.

For example, in the case of school personnel, consecutive periods of employment will be defined as returning the following September.

Any part-time employee who becomes a full-time employee shall have his or her part-time service prorated as it relates to a full-time position.

Anyone who was enrolled in FICA during the requested time for buyback is not eligible for buyback.

Those persons requesting buyback for creditable service must prove eligibility through recognized records (example: check stubs).

May 29, 1996

Any person requesting a buyback must have verification records of employment (e.g., tax records, tax returns, salary slips).

June 9, 1999

Buy- back Military Service

Each eligible member's buy back of military service time pursuant to Chapter 71 of the Acts of 1996 can be made up until the date of retirement.

Clinton Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

November 19, 2002

Membership Eligibility, Creditable Service, and Prior Service

1. A person must work a minimum of an average of 20 hours per week per work year in order to be eligible to become a member of the Clinton Retirement System, except those elected officials who may join the system in accordance with Chapter 32, Section 3(2)(vi).

2. Creditable Service will be based on the average hours worked per week per work year. The following schedule will apply:

20-24 average hours per week50% creditable service

25-28 average hours per week60% creditable service

29-34 average hours per week75% creditable service

35 and over average hours per week 100% creditable service

3. Eligible Prior Service rendered by a current system member who was not a member of the system at the time of the eligible service will be allowed to buy back creditable service on the following schedule:

20-24 average hours per week50% creditable service

25-28 average hours per week60% creditable service

29-34 average hours per week75% creditable service

35 and over average hours per week100% creditable service

Clinton Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the Town Accountant who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: Lorraine Leonard

Appointed Member: George Kittredge Term Expires: Indefinite

Elected Member: John McNamara Term Expires: 02/01/2004

Elected Member: Michael DiGisi Term Expires: 04/15/2005

Appointed Member: Paul Cherubini Term Expires: 03/28/2006

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex officio Member:)	\$30,000,000/\$1,000,000
Elected Member:)	MACRS Policy
Appointed Member:)	Cray Dowd Ins Agency
Staff Employee:)	

Clinton Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by **PERAC** as of **January 1, 2001**.

The actuarial liability for active members was	\$14,125,205
The actuarial liability for retired and inactive members was	<u>7,236,855</u>
The total actuarial liability was	21,362,060
System assets as of that date were	<u>14,763,411</u>
The unfunded actuarial liability was	<u>\$6,598,649</u>
The ratio of system's assets to total actuarial liability was	69.1%
As of that date the total covered employee payroll was	\$6,794,265

The normal cost for employees on that date was 7.90% of payroll

The normal cost for the employer was 7.80% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.50% per annum

Rate of Salary Increase: 5.50% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2001

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2001	\$14,763,411	\$21,362,060	\$6,598,649	69.1%	\$6,794,265	97.12%
1/1/1998	11,006,985	16,676,886	5,669,901	66.0%	5,094,984	111.28%
1/1/1997	9,445,906	13,248,887	3,802,981	71.3%	4,566,371	83.28%

Clinton Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2001

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Superannuation	18	2	1	3	0	7	4	1	3	4
Ordinary Disability	0	0	0	0	0	0	0	1	1	0
Accidental Disability	0	0	0	0	0	0	1	0	0	3
Total Retirements	18	2	1	3	0	7	5	2	4	7
Total Retirees, Beneficiaries and Survivors	114	116	116	114	100	104	105	102	101	102
Total Active Members	188	166	168	160	173	177	196	208	230	244
Pension Payments										
Superannuation	\$461,393	\$590,604	\$586,123	\$604,640	\$565,276	\$572,012	\$590,190	\$588,680	\$604,754	\$626,981
Survivor/Beneficiary Payments	52,554	49,556	39,098	28,222	25,514	26,250	23,787	18,300	18,860	23,506
Ordinary Disability	84,601	75,987	75,988	65,576	27,161	27,779	27,226	16,131	21,536	33,585
Accidental Disability	33,160	27,133	23,836	25,363	65,801	66,926	81,757	101,154	90,119	118,729
Other	<u>76,183</u>	<u>106,518</u>	<u>109,332</u>	<u>93,115</u>	<u>31,018</u>	<u>31,468</u>	<u>31,720</u>	<u>91,575</u>	<u>110,337</u>	<u>100,811</u>
Total Payments for Year	<u>\$707,891</u>	<u>\$849,798</u>	<u>\$834,377</u>	<u>\$816,916</u>	<u>\$714,770</u>	<u>\$724,435</u>	<u>\$754,680</u>	<u>\$815,841</u>	<u>\$845,606</u>	<u>\$903,613</u>